WORKING CAPITAL FUND

FY 2003 Third Quarter Report: Summary

I. Relation of Earnings to Expenses

- Each business is expected to achieve a balance between annual ‘earnings’ (billings to customers pursuant to Board-approved pricing policies) and ‘expenses’ (accrued contractual costs adjusted for depreciation, inventory changes, and related business-type costs). Quarterly analyses are intended primarily to identify emerging annual issues that may warrant changes in Board pricing policies.

- The Fund experienced net earnings of $0.6 M (1%) on $65.6 M in earnings through the third quarter of FY 2003. Some business lines experienced net earnings as outlined below.

WORKING CAPITAL FUND			
FY 2003 Cumulative Business Results (in Millions)			
TABLE I			
Business Line	Third Quarter Earnings	Third Quarter Expenses	Third Quarter Net
Supplies	$1.8	$1.8	$0.0
Mail	$2.0	$1.6	$0.4
Copying	$1.7	$2.1	-$0.4
Printing/Graphics	$1.9	$1.9	$0.0
Building Occupancy	$44.0	$44.3	-$0.3
Telephones	$5.0	$4.6	$0.4
Desktop	$0.9	$0.9	$0.0
Network	$4.7	$4.3	$0.4
Contract Closeout	$0.6	$0.5	$0.1
Payroll Processing	$1.0	$1.5	-$0.5
CHRIS	$1.6	$1.3	$0.3
On-Line Learn. Ctr.	$0.3	$0.2	$0.1
TOTAL [1]	**$65.6**	**$65.1**	**$0.6**

- Specific differences in excess of $50,000 are as follows:
  - The Mail Business reported net earnings of $0.4 million due to reduced costs for support services and deferred purchase of mail hazard equipment pending

1 When converting from whole dollars to tens of millions total amounts do not always add due to rounding.

Administration decisions.

- The Copy Business Line reported negative net earnings of $400,194 resulting from a continuing decline in customer usage of staffed copy centers without a corresponding decrease in the Copy Business Line costs. The Business Line manager is actively pursuing measures to reduce its staffed copy center costs. The business initiated, with Board approval, a new document imaging capability. During the third quarter alone, digitization contributed $26,000 profit to offset other business costs.

- The Building Business Line had negative net earnings of $338,749 due to the timing of recognized costs associated with the Department's building construction/improvement program. Under the pricing policy for this business, revenue was recognized in prior years when contracts were funded. This performance does not imply the need for pricing policy changes.

- The Telephone Business Line reported net earnings of $435,546 resulting from a one time prior year cost adjustment. Except for this credit, operations are expected to be near break even and the year-end net income should be approximately $400,000.

- The Network Business Line reported net earnings of $435,306 due to cost reductions to DOEnet, offset by increased costs in Network. The Board changed the pricing policy beginning FY 2004 to increase billing for network and reduce billing for DOEnet, respectively. This will have the effect of rebalancing the business towards breakeven status.

- The Contract Closeout Business Line reported net earnings of $133,387 due to seasonal activity. Fourth Quarter costs should reduce these earnings.

- The CHRIS Business Line reported net earnings of $293,896 due to the timing of costs related to equipment and equipment maintenance and other deferred spending. These expenses are expected later in the fiscal year.

- The On-Line Learning Center Business Line had net earnings of $126,102 related to subscriptions that have been ordered by programs, but not billed by the vendor.

- The Payroll Business Line had negative net earnings of $528,090 was attributable to the costs of fixing the gaps between DOE payroll requirements and the Defense Civilian Pay System of $856,000. Additionally, it was caused by the planned reductions to customer billing, in order to reduce the accumulated profits held by the business.

- Both earnings and expenses reported above have been adjusted from the DISCAS accounting to present the Fund's net earnings with the most accurate and latest information. Mail, Payroll, CHRIS, and Online Learning earnings have been adjusted down to reflect annual collections that should be reported in 25% increments each quarter. Telephone earnings have been increased to match nine months of costs with nine months of billing based on usage billed FY 2002 but expensed in October/November. Copy and Printing and Graphics earnings are increased related to unbilled customer orders.

These adjustments are justified during interim reporting in the fiscal year, because our emphasis is on providing the Board with the most accurate reporting and estimates of annual performance. At year-end, the Fund has more time to estimate accruals, which allows business managers to analyze costs in greater detail. For that reason, we rely on DISCAS data alone for the Annual Report.

II. Relation of Customer Payments to Anticipated Customer Billings

- Obligation authority for Fund businesses is derived from customer advance payments for services. The Board has adopted procedures calling for customers to make full-year advance payments into the Fund.

- By June, we had collected $96.3 million (111%) of the estimated $86.5 million in FY 2003 annual revenues (Table II).

WORKING CAPITAL FUND			
FY 2003 Cumulative Business Results (in Millions)			
TABLE II			
Business Line	**Advances as of Third Quarter [2]**	**Anticipated Full Year**	**% Collected**
Supplies	$ 4.0	$2.4	166%
Mail	$ 3.4	$2.6	131%
Copying	$ 3.2	$2.2	145%
Printing/Graphics	$ 3.5	$2.4	146%
Building Occupancy	$ 55.6	$58.4	95%
Telephones	$ 9.8	$6.6	148%
Desktop	$ 1.6	$1.2	133%
Network	$ 5.8	$6.2	94%
Contract Closeout	$ 1.0	$0.8	125%
Payroll Processing	$ 5.2	$1.4	371%
CHRIS	$ 2.5	$2.2	114%
On-Line Learn. Ctr.	$ 0.5	$0.3	167%
TOTAL	**$ 96.3**	**$ 86.5**	**111%**

2 Customer advances include prior year customer advances. (see Table III).

III. Relation of Payments to Obligations by Business Line

- There have been no violations of administrative control of funds procedures by WCF business lines.

- As shown in Table III, funds available exceeded obligations by an estimated $32.2 million by the end of the third quarter. The rate of obligation is slower than annualized estimates due to the length of the continuing resolution at the beginning of FY 2003.

WORKING CAPITAL FUND

FY 2003 Cumulative Business Results (in Millions)

TABLE III

Business Line	Unobligated Balance [3] 10/02	Current Year Customer Advances	Total available for obligation	Third Quarter Obligations	Advances Remaining to be Obligated
Supplies	$1.8	$2.2	$ 4.0	$1.5	$2.5
Mail	$0.4	$3.1	$ 3.4	$1.5	$1.9
Copying	$0.8	$2.5	$ 3.2	$2.0	$1.2
Printing/Graphics	$0.6	$3.0	$ 3.5	$2.2	$1.3
Building Occupancy	$3.3	$52.3	$ 55.6	$44.5	$11.1
Telephones	$3.2	$6.6	$ 9.8	$3.8	$6.0
Desktop	$0.3	$1.3	$ 1.6	$0.8	$0.8
Network	$2.0	$3.8	$ 5.8	$3.9	$2.1
Contract Closeout	$0.3	$0.7	$ 1.0	$0.7	$0.3
Payroll Processing	$3.7	$1.5	$ 5.2	$1.2	$4.0
Chris	$0.8	$1.6	$ 2.5	$1.9	$0.6
On-Line Learn. Ctr.	$0.1	$0.4	$ 0.5	$0.1	$0.4
TOTAL	**$17.3**	**$79.0**	**$ 96.3**	**$64.2**	**$32.2**

3 The unobligated balances are made up of earned and unearned customer advances from the prior fiscal year. These funds often act as working capital during the early weeks of a new fiscal year. Unearned balances of $12.3 million represent a liability of the fund and like other unearned customer advances, are uncommitted and can be returned to the customer at their request. There are also $0.3 million of unearned advances, which are not allocated to businesses.

IV. Changes in Budget Estimates by Business Line and Customer

- The $2.3 million increase in the May 2002 estimate was the result of GSA rent increases ($2.0 million) and increased demand for supplies. December 2002 estimates increased further as a result of increased mail security offset by phone savings. July 2003 estimates reflect lower spending in supplies ($0.8 M) and printing ($0.5 M) and a price reduction in payroll ($1.7M). On a net basis, our current estimates are substantially in line with the original FY 2003 budget guidance.

FY 2003 Budget Estimates for WCF Businesses

Date	Process	FY 2003 Billing Estimate ($Millions)
May 2001	FY 2003 Corporate Review	$86.9
December 2001	FY 2003 Congressional Budget	$87.1
May 2002	FY 2004 Corporate Review	$89.4
December 2002	FY 2004 Congressional Budget	$89.6
July 2003	June WCF Bill	$86.8

V. Anticipated Need to Change Pricing Policies or Make Substantial Changes in Operating Levels.

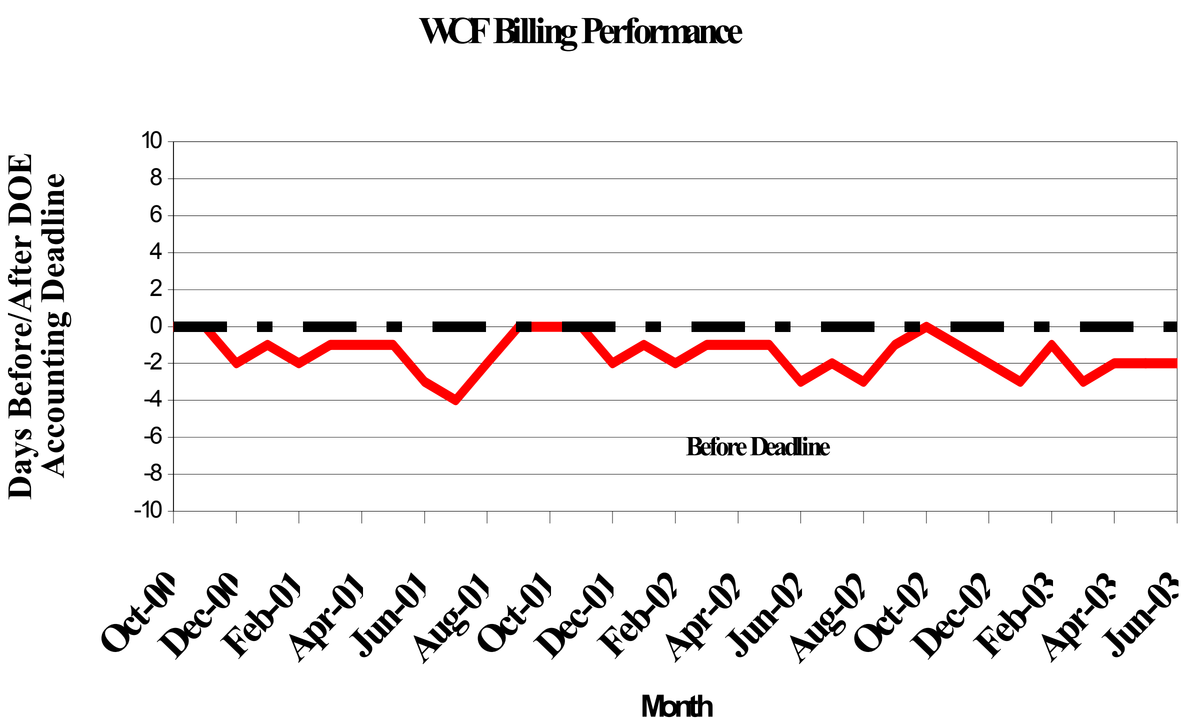
- The Fund Manager does not anticipate the need to change pricing policies for FY 2003. Working groups are currently examining the likelihood of adding project management training, other professional training, and cell phones to the Fund in future periods and the need to change DOEnet pricing policy. They will make recommendations to the Board on their findings.

VI. Financial Management Systems Progress

Working Capital Fund Billing System

- The WCF billing system continued to successfully produce timely and accurate monthly bills. The chart below indicates the billing performance related to transferring customer-billing information to DISCAS by the fifth working day of the month (beginning Feb 2003, the fourth working day), this allows the Fund staff, with the cooperation of CFO officials, to have the billings entered into DISCAS each month before the accounts are closed. A minus two (-2) indicates that billing was forwarded two days before the deadline. This standard provides customers with costs reported in DISCAS in the same month they occur. The time between the end of the month and the issuance of the bill is extremely consistent. Process improvements that would result in timesaving are no longer meaningful.

- The Fund Manager recently completed upgrading the billing system to automate and enhance customer reporting. It is our assessment that the system is stable and has the flexibility to accept changes as needed. We intend to solicit ideas from our customer and business working groups for the next generation of enhancements. The complete assessment can be located on our web site at www.ma.mbe.doe.gov/wcf under Billing System Assessment.



VII. Performance Review

- Business Lines report that they are accomplishing goals and performance objectives for FY 2003 consistent with annual projections in recent five-year plans. We have every expectation to meet performance standards at the end of FY 2003.

- The Working Capital Fund Expo on June 4 (Forrestal) and June 11 (Germantown provided several hundred DOE headquarter employees with demonstrations of different products and services offered by the Fund business lines. The reaction of visitors was very favorable. Many of our current and future customers learned new ways to use the fund to further their mission goals and to expedite delivery of desired goods and services. Each presentation included a hand out with product and service descriptions and contact phone numbers and email addresses for the respective business manager and key employees. There were many requests for future expos on a recurring basis.

  The Board recognized the efforts of event planners, including: Mary Anderson, Expo Chair, Bob Emond, Dianne Cane, Jupiter Corp., Deborah Black, Ruth Wells (EIA), Jim Fremont (EE), Penny Gardner (IM), Karyn Collins, Robert Cooper, Eunice Swinson, and Susanne Nawrot (IM).